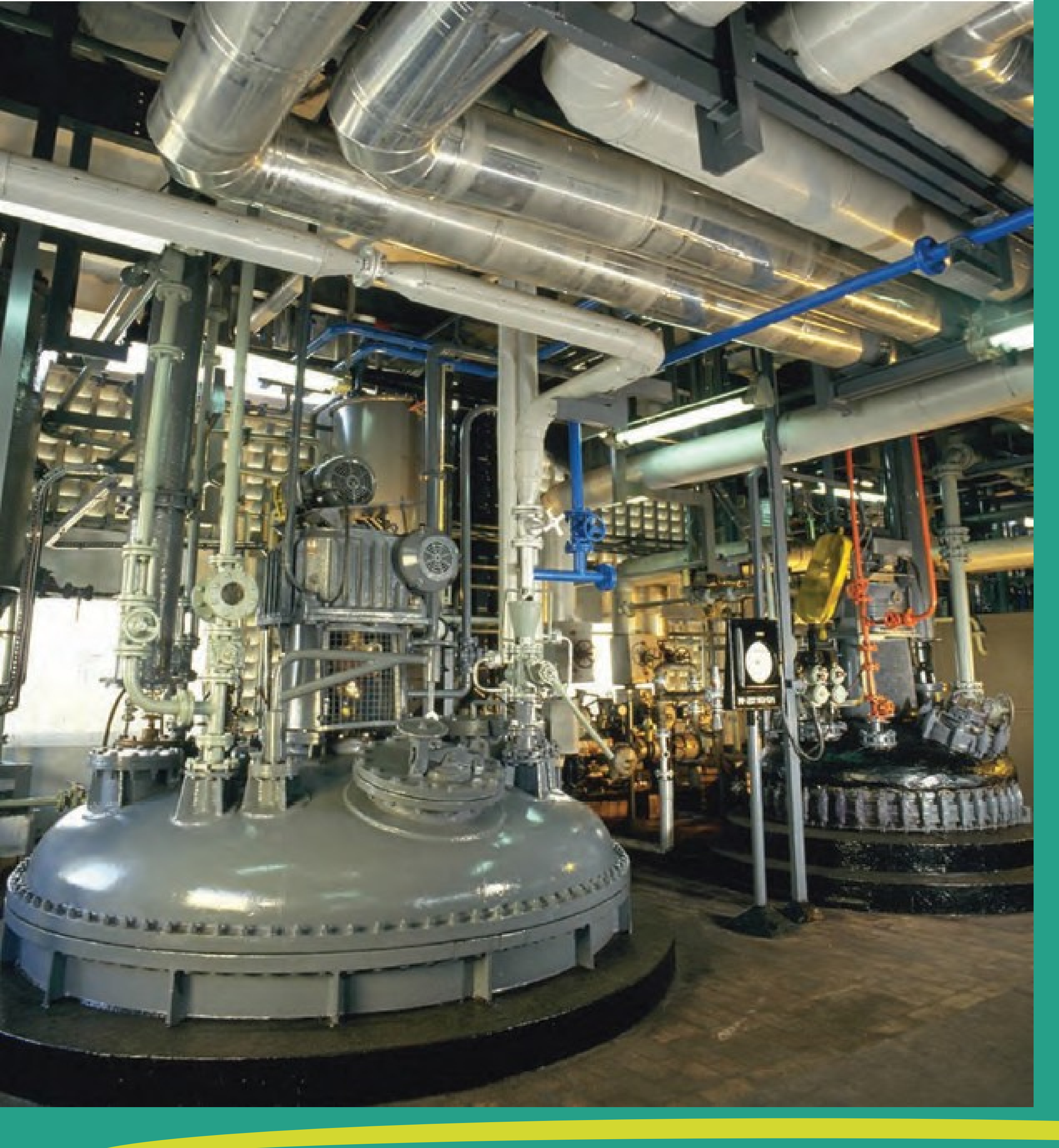
International Business Environments and Operations, 13/e

Part Two
Comparative Environmental Frameworks



Chapter Four

The Economic Environments Facing Businesses

Chapter Objectives

- To understand the importance of economic analysis
- To identify the major dimensions of international economic analysis
- To compare and contrast macroeconomic indicators
- To profile the characteristics of the types of economic systems
- To discuss the idea of economic freedom
- To profile the drivers of economic transition

Importance of Economic Environments

- Managers study economic environments to estimate how market trends and government policy influence the performance of their companies.
- A country's economic policies are a leading indicator of government's goals and its planned use of economic tools and market reforms.
- Economic development directly impacts citizens, managers, companies, policymakers, and institutions.

International Economic Analysis

- Three conditions hamper the development of a universal scheme:
  - Difficulty in stipulating a definitive set of indicators to estimate the performance and potential of a country’s economy.
  - Today’s set of perfect measures may prove imperfect tomorrow.
  - Interdependencies complicate interpreting the relationship among elements of the economic environment.

Economic Factors Affecting International Business Operations

- Economic analysis
- Economic indicators
- Economic systems
- Economic freedom
- Transition to a market economy

EXTERNAL INFLUENCES

PHYSICAL AND SOCIAL FACTORS

- Political policies and legal practices
- Cultural factors
- Economic forces
- Geographic influences

COMPETITIVE ENVIRONMENT



OPERATIONS

OBJECTIVES

STRATEGY

MEANS

Elements of the Economic Environment

- Gross National Income (GNI): the income generated both by total domestic production as well as the international production activities of national companies
- Gross National Product (GNP): the value of all final goods and services produced within a nation in a given year, plus the income earned by its citizens abroad, minus the income earned by foreigners from domestic production.

Elements of the Economic Environment

- Gross domestic product (GDP): the total value of all final goods and services produced in a country in a given year equal to total consumer, investment, and government spending, plus the value of exports, minus the value of imports.

Improving the Power of GNI

- Per Capita Conversion
- Rate of Change
- Purchasing Power Parity
- Degree of Human Development
- Green Measures

Other Features of an Economy

- Inflation
- Unemployment
- Debt
- Income distribution
- Poverty
- Labor costs
- Productivity
- Balance of payments

Inflation

- Cost of Living
- Implications of Chronic Inflation
- Price Indexes & Measurement Problems
- Deflation

Unemployment

- Problems in Measuring
- Variation in Public Support
- The Pension Problem

Debt

- Internal Debt: Portion of the government debt that is denominated in the country's own currency and held by domestic residents

- External Debt: Debt owed to foreign creditors and denominated in foreign currency.

Income Distribution

- Gini Coefficient
- Urban vs. Rural
- Income Inequality

Poverty

- World Bank Definition
- Poverty and the Economic Environment
- The Potential of the Poor
  - Bottom of the Pyramid Phenomenon

Labor Costs

- Labor and Total Costs

  For many goods and services, the cost of labor is a key element of total costs. Consequently, companies scan the world, looking for markets that offer lower-cost labor.

Productivity

Productivity measures the efficiency with which products are produced.

Balance of Payments

- Current and Capital Accounts
  - Current Account: tracks all trade activity in merchandise
  - Capital Account: tracks both loans given to foreigners and loans received by citizens

- BOP and Economic Stability

Components of a Country's Balance of Payments

Current Account

- Value of exports and imports of physical goods, such as oil, grain, or computers (also referred to as *visible trade*)
- Receipts and payments for services, such as banking or advertising, and other intangible goods, such as copyrights and cross-border dividend and interest payments (also referred to as *invisible trade*)
- Private transfers, such as money sent home by expatriate workers
- Official transfers, such as international aid, on which the government expects no returns

Capital Account

- Long-term capital flows—i.e., money invested in foreign firms as well as profits made by selling those investments and returning the money home
- Short-term capital flows—i.e., money invested in foreign currencies by international speculators as well as funds moved around the world for business purposes by companies with international operations

Definition of Economic System

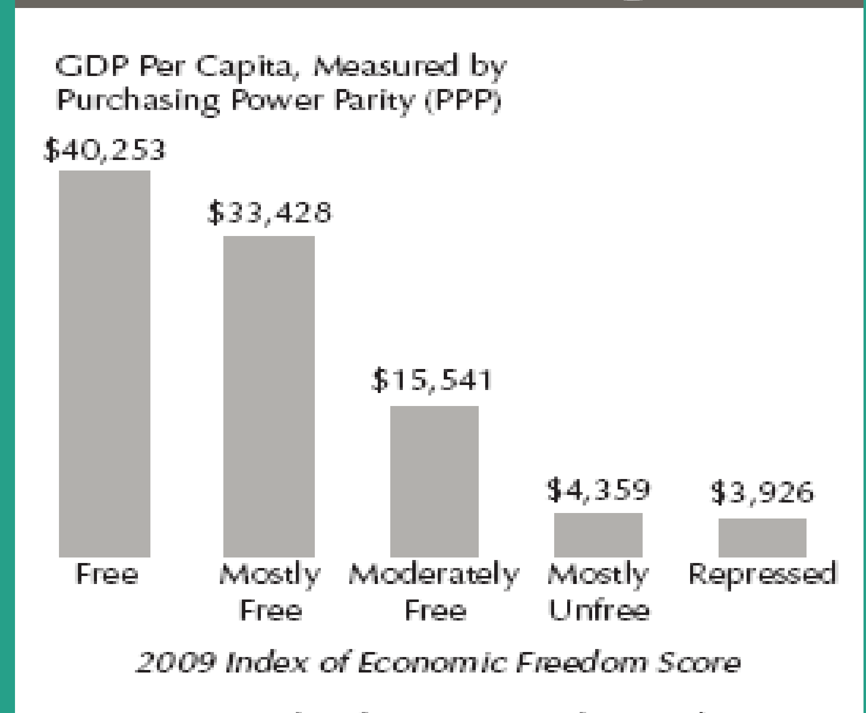
- A mechanism that deals with the production, distribution, and consumption of goods and services
- Types:
  - Market economy
  - Command economy
  - Mixed economy

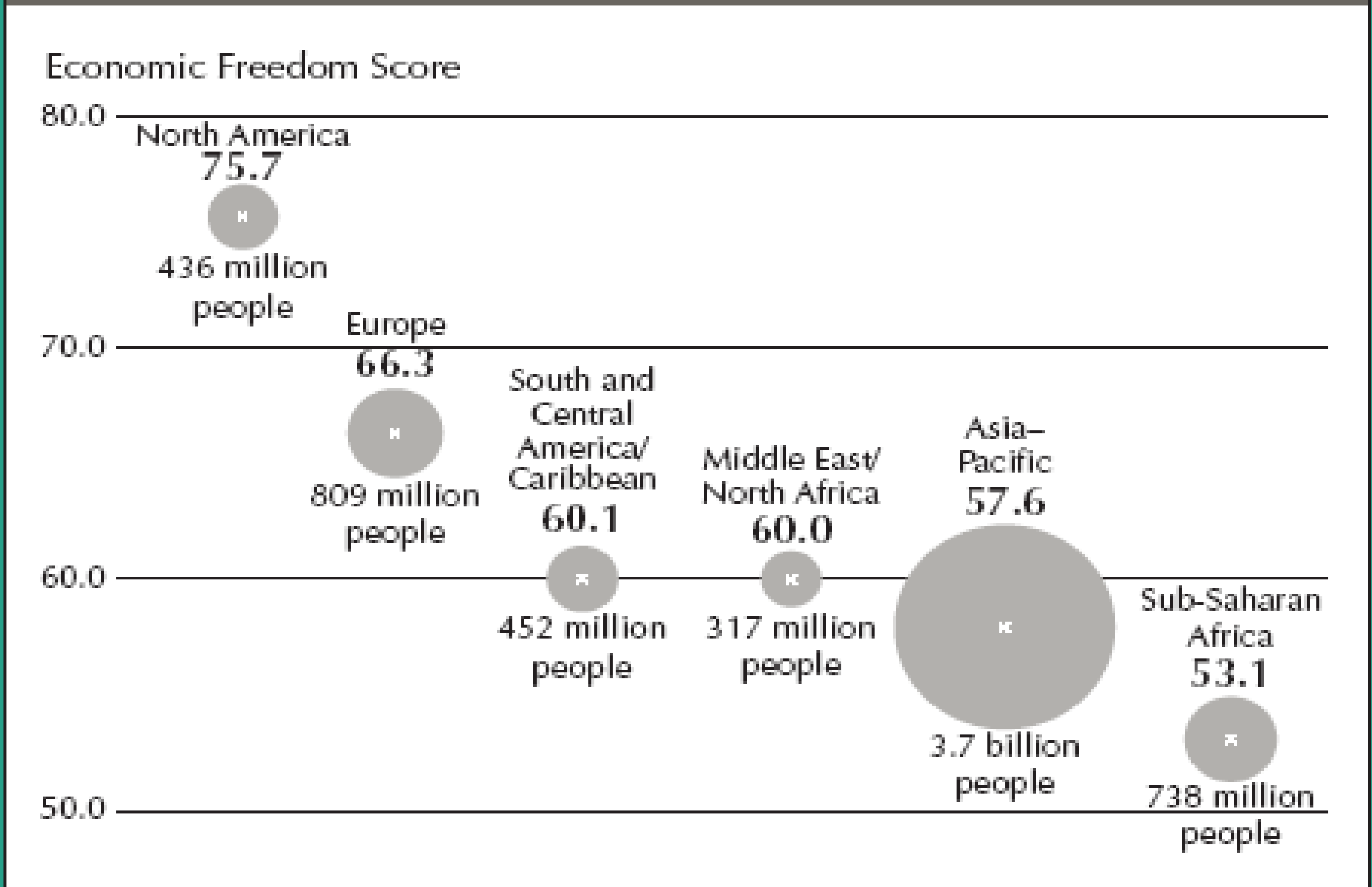
The Dynamic of Economic Transitions

- The Allure of Market Economies
- Belief in Free Markets
- Economic Freedom

Dimensions of The Economic Freedom Index

- Business freedom
- Trade freedom
- Monetary freedom
- Freedom from government
- Fiscal freedom
- Property rights
- Investment freedom
- Financial freedom
- Freedom from corruption
- Labor freedom





Economic Freedom by Region
Economic Freedom Score
80.0
70.0
60.0
50.0
North America
75.7
436 million people
Europe
66.3
809 million people
South and Central America/ Caribbean
60.1
452 million people
Middle East/ North Africa
60.0
317 million people
Asia–Pacific
57.6
3.7 billion people
Sub-Saharan Africa
53.1
738 million people
Source: 2009 Index of Economic Freedom (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2009), at www.heritage.org/index; World Bank, World Development Indicators Online, at www.worldbank.org/data; Central Intelligence Agency, the World Factbook 2008, at https://www.cia.gov/library/publications/the-world-factbook/index.html.
Chart 1
heritage.org

Future: Economic Freedom Pushback and the Rise of the Mixed Economy

- Return of the Mixed Economy
- Free-Market Strike Back
- The Battle Engaged

Means of Economic Transition

- Liberalizing economic activity
- Reforming business activity
- Establishing legal and institutional frameworks
- Success is linked to how well the government deals with:
  - Privatization
  - Regulation
  - Property right protection
  - Fiscal and monetary reform
  - Antitrust legislation